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C O N F I D E N T I A L SECTION 01 OF 02 SANTO DOMINGO 000232

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STATE FOR WHA AND EB
TREASURY FOR OASIS: J.TAYLOR, N.LEE, R.TOLOUI AND L.LAMONICA
NSC FOR K.MADISON AND H.CRUZ

E.O. 12958: DECL: 01/12/2014

TAGS: [EFIN](#) [PREL](#) [DR](#)

SUBJECT: GODR PRESIDENT MEJIA ON IMF AGREEMENT

REF: A. STATE 6404

[1](#)B. GODR PRESIDENT MEJIA,S JANUARY 5 LETTER TO
PRESIDENT BUSH

Classified By: DCM Lisa Kubiske for reasons, 1.5 (b) and (d).

[1](#)1. (C) Summary: In response to Ambassador,s points drawn from reftel A, President Mejia expressed strong support for staying the course toward resumption of the IMF standby, including maintaining a market-based exchange rate policy. He seeks greater flexibility on the part of the international financial institutions with respect to payment of arrears to Cogentrix, a U.S. independent power producer whose investment comes from loans backed by a guarantee from the Interamerican Development Bank (IDB). Continued non-payment of arrears by the GODR could derail future IDB lending to the Dominican government. Such lending is a key component of the international community,s recovery strategy for the Dominican economy. Thus, Washington agencies should encourage the IDB and the GODR (and ultimately the GODR and Cogentrix,s creditors) to identify a way out of the impasse. End summary.

[1](#)2. (C) Per instructions (ref A), the Ambassador, accompanied by DCM Kubiske, called on Dominican Republic President Mejia January 12 to respond to Mejia,s January 5 letter to President Bush (ref B) by encouraging the GODR to stay on course toward resumption of an IMF stand-by arrangement, which can result in additional lending by the Interamerican Development Bank and the World Bank.

[1](#)3. (C) President Mejia responded that the DR was doing "everything" to meet the Fund requirements, and that the final piece of legislation, the systemic risk law, was due to him for signature today.

[1](#)4. (C) Asked about what he meant by the paragraph in his letter regarding (quote) taking measures, controversial as they might be in financial circles, for the short-term stabilization of the economy (unquote), Mejia said he was referring to the coming price increases and tax increases required by the IMF program. Everyone would really have to tighten their belts now, he said. Asked specifically about his exchange rate policy, Mejia said the GODR is doing what the Fund is asking. He doesn't like it, thinks the peso will weaken significantly, and thinks this policy will be damaging to the country, he said. That notwithstanding, he added, he is, in fact, doing what the Fund wants.

[1](#)5. (C) The Ambassador asked what he had in mind by requesting US help to encourage the international financial institutions to show more flexibility. Mejia said he wanted more flexibility regarding Cogentrix, the U.S. independent power producer with an investment in the Dominican Republic. Mejia said he didn't want to pay Cogentrix,s creditors when the plant was not generating. We reminded Mejia that the creditors had legal rights. Mejia responded by calling it morally wrong for the Dominican Republic to have to pay a plant that has been closed for a year. We explained that Mejia,s position could jeopardize the flow of IDB funds to the country (given that creditors have had the right since November to call the sovereign guarantees on IDB and private sector lending, amounting to approximately USD 400 million). We encouraged him to share his views with IDB - Enrique Iglesias.

Comment and Next Steps

Mejia seemed very pleased with the legislative actions supporting the Fund program and was emphatic he would continue down the path to resumption of the IMF program. He left a strong impression that he is still committed to this policy path, with all that this implies) including allowing the exchange rate to be determined by the market.

It appears from this conversation that the GODR and Cogentrix,s creditors are at an impasse. The best hope may be for a senior representative of the IDB to meet with Mejia to discuss the matter, in search of a way forward; otherwise, we may be headed for a train wreck of IDB lending, which constitutes a pillar of the international community support

for the Dominican economy,s recovery.

On January 14-15 Washington agencies will have an opportunity to talk directly with Carlos Despradel, Mejia,s Technical Secretary and key member of the economic team to get more

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information and share views. Despradel understands the implications of the situation but has told us repeatedly that he has been unable to change the President,s mind on this issue. End comment.
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